

Regional Land Transport Plan 2021 – 2031: Funding, Revenue and Cost Pressures

For decision: For noting:

Ngā tūtohunga / Recommendations

That the Regional Transport Committee (committee):

- a) Note that funding and revenue shortfalls, along with unanticipated cost increases and project delays are putting significant pressure on delivery of the Auckland Regional Land Transport Plan 2021-2031 (RLTP).
- b) Note that a variation to the RLTP may be required to address these challenges, but this possibility will be addressed in forthcoming advice; however a variation to the RLTP will be required for the Climate Action Targeted Rate (CATR).

Te whakarāpopototanga matua / Executive summary

1. There are major challenges in delivering the RLTP as planned due to the on-going and long-lasting impacts of COVID-19 pandemic (COVID-19) restrictions and economic conditions, on costs, delivery and public transport (PT) patronage. Whilst Waka Kotahi New Zealand Transport Agency (Waka Kotahi) and KiwiRail are affected, Auckland Transport's (AT's) programme is disproportionately impacted by these enduring impacts.
2. AT is facing significant pressures due to:
 - a. A loss in PT revenues, cost pressures and a lack of funding certainty to maintain a core level of services at a time when accelerated mode shift is required to reduce Auckland's transport related greenhouse gas emissions targets.
 - b. Inflationary pressures, market forces and prior budget pressures effectively delaying the improvements programme by a year and approximately \$200m in cost escalation forecast for the deliverable programme in this three-year period.
 - c. Renewals and maintenance funding being capped below levels in AT's approved Asset Management Plan (AMP), while climate change impacts become more frequent.
 - d. A \$215m shortfall in requested funding from the National Land Transport Fund (NLTF) and lack of funding certainty around the regional fuel tax (RFT) and Eastern Busway putting delivery of critical mode shift initiatives at risk.
 - e. Increased stakeholder expectations, particularly associated with proposals to rapidly reduce transport greenhouse gas emissions, without the change in funding and other mechanisms necessary to meet these expectations.

- f. Increasing pressure to alter the programme to prioritise new investment in climate change initiatives and align AT's investment in growth initiatives with Kāinga Ora (KO) and the New Zealand Upgrade Programme (NZUP).
3. Work is underway to understand the impact of these cost, funding and revenue changes on the overall programme. However, it appears likely that a variation to the RLTP, will be needed to address these issues. Once there is a better understanding of the cost issues and likely way forward, we will also be a need to notify the Auckland Transport Alignment Project (ATAP) parties of the committee's proposed approach to responding to these challenges.

Ngā tuhinga ō mua / Previous deliberations

Date	Report Title	Key Outcomes
June 2021 AT Board (board)	RLTP 2021 - 2031	The board approved the RLTP following (unanimously supported) resolutions from Auckland Council's Planning Committee and the committee to recommend the RLTP to the board for approval.

Te horopaki me te tīaroaro rautaki / Context and strategic alignment

4. The RLTP provided for the largest transport investment plan yet seen in Auckland with a total of \$38 billion of investment in transport. However, there have been rapid changes to a number of the key assumptions, particularly around PT fare revenue, project costs and funding. There are also ongoing pressures to provide increased funding for activities to reduce transport emissions and address growth.
5. This report is intended to alert the committee to these issues, in the context of a possible future variation. Shifts in project costs and delivery timeframes, in combination with funding constraints may require some rephrasing of the RLTP programme via a variation, but more information is needed about forecasts costs and available before we can provide final advice on this point. The committee may prepare a variation to the RLTP (for consideration by the board to approve the variation) if good reason exists for making the variation¹. However, the scope of the variation is limited to activities proposed by AT, Waka Kotahi or Auckland Council (Council) seeking funding from the NLTF².

¹ Land Transport Management Act 2003 (LTMA) s18D(1)(b) and s18D(3)

² Land Transport Management Act 2003 (LTMA) s16(3)(b) and (c)

Ngā matapakinga me ngā tātaritanga / Discussion and analysis

The Investment Programme

6. The RLTP sets out a plan for the prioritised delivery of infrastructure and services across the Auckland Region over the next 10 years. For AT, over the next 3 years, the RLTP signals \$3b in capital and renewals (~\$2.2b in capital improvements and ~\$800m in renewals) and approximately \$3.2b in operations (~\$2.7b in PT services and ~\$500m in maintenance)
7. The RLTP also assumed that third party revenue from all sources would be in the order of ~\$1.1b over the first three years of the RLTP, consistent with assumptions provided by Council that assumed that Auckland would not be impacted by any future COVID-19 variants.

Impact of COVID-19 on PT Operations

8. AT is facing serious financial pressure to maintain an essential level of PT services to attract people back to PT. The dilemma is one of finding the balance between the financial pressure and delivering an essential public service. This issue has been raised with Waka Kotahi, Council and other ATAP participants.
9. This is set against a backdrop of accelerating an increase in PT services to reduce Auckland's transport related greenhouse gas emissions through initiatives such as the CATR, and most likely the Transport Emissions Reduction Plan (TERP) and the Government's Emissions Reduction Plan (ERP).
10. The impact of COVID-19 restrictions, a reluctance to return to PT and more flexible working options has resulted in much slower patronage and revenue recovery than planned. If the trend continues, there is the potential to be in the order of 120 million passenger boardings fewer than anticipated in the RLTP over this three-year period, and a significant revenue shortfall.
11. In response to revenue and cost pressures, AT is seeking to reduce costs and increase revenue opportunities by optimising PT service patterns, delaying the introduction of new services and pursuing additional revenue opportunities.
12. These interventions are insufficient to cover the net costs to operate the PT system, and additional funding is required. Whilst Council and Waka Kotahi have contributed towards covering this financial year's loss in revenue, AT has no certainty of further funding beyond 30 June 2022.
13. Any additional operational funding will likely place stress on Council's finances, and the PT activity class in the NLTF, as both funding sources are under pressure due to revenue loss and cost impacts due to COVID-19.

Funding for the Renewals Programme

14. The RLTP has made provision for \$3.9b worth of renewals over a 10-year period, of which \$809m is budgeted in this three-year period.
15. Waka Kotahi has capped funding for investment in renewals at \$327m compared with the \$412m requested (approximately 20% less than the NLTF funding requested), on the advice that there was insufficient evidence to support the investment proposal, although the AMP had been endorsed prior to that.

16. Whilst this is a substantial increase on previous RLTP's, the funding cap forces a focus of the investment to ensure that assets are safe and serviceable and avoid additional costs caused by unexpected asset failure. This approach risks increased maintenance costs and reduced public confidence in AT maintaining infrastructure to levels that the community expects.
17. Climate change is resulting in more frequent events on the network and adaptation work is not separately funded in the RLTP.
18. In line with the objectives of the board, asset renewals is the highest priority capital investment for AT.

Funding for the Capital Improvement Programme

19. The ATAP confirmed an agreed 10-year programme between Auckland Council and the Ministers of Transport and Finance including the funding assumptions that underpin the RLTP, but did not prioritise them, nor confirm funding arrangements for this three-year period.
20. The RLTP prioritised activities of highest importance for Auckland in this three-year period and applied the ATAP funding assumptions resulting in activities seeking higher than the standard 51% financial assistance rate (FAR) from the NLTF. These include activities to enable the completion of the City Rail Link, School Speed Management Programme and Hill Street intersection improvements.
21. The NLTF was over-subscribed reflecting the demand for funding to support each region across New Zealand. Waka Kotahi sought (and was granted) a circa \$2b facility to cover the loss in expected revenue from fuel excise duty (FED) and road user charges (RUC). However, even with this facility, Waka Kotahi was unable to commit higher FARs amounting to a \$135m shortfall in funding for improvements.
22. In addition to this:
 - a. there continues to be a lack of certainty around whether the level of Central Government contribution (through higher FARs from the NLTF or redistribution of funding earmarked for the Northern Pathway project through NZUP) will be available and sufficient to enable the completion of the Eastern Busway project in the most efficient manner possible. Confirmation of funding is urgent to enable delivery of this critical piece of infrastructure for the Auckland region and allow AT to continue investing in the wider region.
 - b. Questions have been raised about the RFT. The RFT is raising approximately \$1.5b to support \$4.2b worth of investment across the region, including Eastern Busway, Connected Communities, Airport to Botany, Matakana Link Road, Cycling Projects, Lincoln Road, Lake Road, Glenvar Road, Supporting Growth Alliance, Safety Programme. Approximately 45% of the revenue collected has been invested to date. If RFT was removed in e.g. June 2023, AT would require an alternative funding source for \$1 billion, or to significant downsizing of its capital programme.

Impacts of COVID-19 on funding

23. COVID-19 is affecting revenue levels across the Council group, and Waka Kotahi, as people have travelled less and variable sources of revenue have not materialised to planned levels.

24. AC have commenced work to assess what is affordable, within the context of the COVID-19 impacts on revenue and the inflationary pressures that it is seeing across the Auckland Council family. In the absence of additional revenue for Council, the overall capital programme may need to be reduced further, to stay in line with its financial strategy.
25. Waka Kotahi is also experiencing revenue pressures in the NLTF due to reduced travel and therefore lower road user charges (RUC) and fuel excise duty (FED); however this has not been fully assessed at this stage.

Impacts of COVID-19 on market conditions

26. COVID-19 has disrupted supply chains globally, which has resulted in materials supply shortages and increased prices in all key inputs to AT's infrastructure projects. The effects are seen in delays and cost escalation affecting planning and delivery, supply chain logistics and access to labour and materials in a high-demand market. In addition, land values are expected to continue to increase, despite the changes in financial legislation.
27. The potential implication is that AT is expecting between \$150m and \$200m in escalation on the current programme. KiwiRail are forecasting a \$60m – 105m unbudgeted escalation in this three-year period, and Waka Kotahi has already incurred additional claims and are still undertaking analysis around the implications of the higher escalation.
28. The inflationary pressures, on-going COVID-19 restrictions and budgetary constraints effectively delay the improvements and renewals programme by a year approximately \$200m in cost escalation forecast for the deliverable programme in this three-year period. This is based on the RLTP programme and does not include Council's ring-fenced CATR initiatives currently out for consultation as part of the Annual Budget process.
29. The deferral or delaying of the project's places even greater pressure (delivery and funding) beyond 2023/24 to deliver the RLTP if it is retained in its current form.

Emerging Pressures

Meeting Community and Council Expectations

30. Mode shift to PT is a critical component to achieving climate change outcomes and delivering the outcomes expected in the RLTP; however there is increasing pressure to prioritise new investment in climate change initiatives to support Te Taruke-a-Tawhiri without the necessary funding to support it.
31. However, Council is making available additional funding through the proposed CATR to expand the coverage and frequency of bus services; accelerate the replacement of the ferry fleet; and expand coverage of the cycle network. Waka Kotahi co-funding is not assumed until the next three-year period; however should this not be received in the next RLTP period, the scale of this initiative will need to be reduced. Other Central Government funding sources are being pursued (such as funding to implement the ERP).
32. AT is also facing significantly increased stakeholder expectations across a number of areas, these range from the ambitious but unfunded expectations set by various emissions reduction plans to a desire to see widespread deployment of cycling improvements as part of the safety

and renewals programme. While AT will work to achieve improvements, the scale of expected change lies beyond AT's legislative or scope or available funding and requires action at the funding level.

Meeting expectations for investment in growth

33. There is continued pressure to enable investment that supports growth in both the Joint Spatial Priority Areas (JSPA) and the greenfield areas as part of the Supporting Growth initiative without financial resources to support it. Alongside this is the implications of the National Policy Statement on Urban Development (NPS-UD) and the Medium Density Residential Standards which significantly increase the complexity of investment decision to support growth.
34. In both cases, the RLTP allocated the major component of funding in the outer years of the 10-year RLTP period because earlier funding is committed to projects like the Eastern Busway. In the JSPA's, AT is working through a partnership agreement with KO; however, the risk is that, in absence of alternative funding and financing mechanisms in place, infrastructure development and delivery will not be co-ordinated with the land use development.
35. In the greenfields areas, the funding allocated in the RLTP will not support either the scale or the timing of the property liability that AT may need to hold upon seeking designations for the greenfield transport networks. The possible redistribution of NZUP funding for Mill Road may alleviate this to some extent.
36. The RLTP considered the above through its prioritisation process and concluded that investment in these activities was not as urgent as other areas of AT's programme, namely investment in renewals, safety and critical investment in PT infrastructure (such as the Eastern Busway and activities supporting CRL, including the Connected Communities programme) which are prioritised early in the programme.

Summary of Position

37. The funding, revenue and cost situation over the next three years appears heavily negative. To date, we have sought to manage this situation through year-by-year budgeting that looks to preserve the full programme in the expectation of either additional funding or a quick recovery from COVID-19. However, the COVID-19 impacts and the change in economic conditions means that the challenges for this year are bigger than last year – and the prospects of a quick recovery seem more unlikely.
38. Whilst AT has yet to fully reconcile the financial and resource impacts, the preliminary work undertaken indicates that without additional funding (including higher FAR's and alternative funding and financing mechanisms), AT would need to consider reducing the improvements programme to fund higher priority activities for AT and seek a redistribution NLTF funding accordingly.
39. AT also expects that the NLTF will come under increasing pressure due to reductions in revenue (lower FED and RUC), increase costs for "in-flight projects" due to COVID-19 and the inflationary pressures.

Strategic Options

40. We consider that a key decision needs to be made about whether to:
 - a) Seek additional funding to preserve the whole RLTP programme, including the current PT services, or

- b) Manage the improvements programme to re-direct funding to PT (transferring local share Capex to Opex, and requesting a similar process for the NLTF) and to compensate for the shortfall in funding assistance. Within this option, key trade-off decisions will need to be made about the balance between capital improvements, renewals and PT services.
 - c) Re-prioritise the existing programme to incorporate investment in new activities responding to the emerging pressures.
41. We are not in a position to provide final advice at this point but expect to come back to the RTC with recommendations including the potential for variation within the current programme, when there is greater confidence in the forward outlook, in line with Council’s budgeting process.
42. We do, however, recommend that these issues are conveyed to the Ministers of Transport and Finance, and the Mayor (through the ATAP Governance Group) to highlight the scale and urgency of the challenges facing the programme as a whole.

Ngā tūraru matua / Key risks and mitigations

Key risk	Mitigation
<p>Cost pressures:</p> <ul style="list-style-type: none"> • Inflation and contract indexation continue to be higher than allowed for in the LTP and RLTP. • Deferred or delayed projects increase the overall costs to deliver the RLTP in its current form without security of funding availability 	<ol style="list-style-type: none"> 1. Accept a more conservative view of funding, costs and delivery timeframes and proactively reprioritise the programme, via a variation, to ensure available resources are focused on the delivery of key projects and PT services 2. Elevate the issues to the Ministers and Mayor in order to seek additional Council and Crown funding to deliver on the RLTP.
<p>Funding and revenue pressures:</p> <ul style="list-style-type: none"> • Slower than expected recovery from COVID-19 impacts and potentially sustained working-from-home arrangements adversely on PT farebox revenue, and NLTF revenue. • Funding assumption which relies on higher FARs on Rapid Transit projects e.g. Eastern Busway and level crossings does not materialise • Impact of COVID-19 on Council’s budgets reduces the available local share funding for the RLTP. • RFT is reduced or removed. 	

Key risk	Mitigation
<p>Customer Experience and Reputation</p> <ul style="list-style-type: none">• AT's infrastructure assets fail due to insufficient funding for maintenance and renewals.• Reputation: under-delivery and PT service cuts affect AT's reputation as a service provider	

Ngā ritenga-ā-pūtea me ngā rauemi / Financial and resource impacts

43. Please refer to paragraph 37 of this report.

Ngā whaiwhakaaro ō te taiao me te panonitanga o te āhuarangi / Environment and climate change considerations

44. Investment in PT services and key infrastructure such as the Eastern Busway and CRL, alongside asset management to support resilience of the transport system are fundamental to contributing towards Auckland Council's goal of reducing Auckland's transport related greenhouse gas emissions. Failure to do so will put this at risk.

Ngā whakaaweawe me ngā whakaaro / Impacts and perspectives

Mana whenua

45. Mana whenua have not been consulted on this matter.

Ngā mema pōti / Elected members

46. There has been no direct consultation with elected members on this matter.

Ngā rōpū kei raro i te Kaunihera / Council Controlled Organisations

47. There has been no consultation with other Council Controlled Organisations on this matter.

Ngā kiritaki / Customers

48. Delayed investment for improvements, and the potential impacts to PT services will have a negative impact on the customer experience and pose a reputational risk for the organisation. However, the scale of impact has not been assessed at this point.

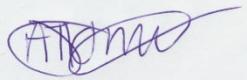
Ngā whaiwhakaaro haumarū me ngā whaiwhakaaro hauora / Health, safety and wellbeing considerations

49. There are no health, safety and well-being implications of this matter.

Ā muri ake nei / Next steps

50. We will develop further advice presenting final numbers on the impact of cost, funding and revenue pressures, along with potential for variation to the RLTP to address the issue by the end of this financial year. This will be brought to the committee for discussion at a future meeting.

Te pou whenua tuhinga / Document ownership

Submitted by	Tim Brown Investment Planning Manager	
Reviewed by	Hamish Bunn Group Manager - Investment Planning Manager	
Recommended by	Jenny Chetwynd Executive General Manager – Planning and Investment	
	Mark Laing Executive General Manager – Finance	
	Andrew Downie Governance Lead	
Approved for submission	Shane Ellison Chief Executive	